REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON SOL PLAATJE LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Sol Plaatje Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the General Notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. I was unable to obtain sufficient appropriate audit evidence to confirm the recording of community assets amounting to R236 019 369 (2011: R234 801 182) as disclosed in note 9 to the financial statements. The entity's records did not permit the application of alternative audit procedures regarding the amounts disclosed as community assets. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the completeness of community assets.

7. I was unable to obtain sufficient appropriate audit evidence for the useful lives used in the depreciation calculation as disclosed in note 9 to the financial statements. Consequently I was unable to confirm the impact on depreciation disclosed as R38 903 728 (2011: R36 195 287),

accumulated depreciation disclosed as R419 652 660 (2011: R381 116 870) and accumulated surplus disclosed as R1 011 439 510 (2011: R865 961 441).

Investment property

8. I was unable to obtain sufficient appropriate audit evidence to confirm the recording of investment property amounting to R121 039 839 (2011: R123 653 049) as disclosed in note 11 to the financial statements. The entity's records did not permit the application of alternative audit procedures regarding the completeness of amounts disclosed as investment property. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the completeness of investment property.

Revenue

9. The municipality did not have adequate systems in place to maintain records of revenue exchange transactions amounting to R817 217 658 (2010: R645 422 406), as disclosed in note 24 to the financial statements. I was unable to obtain sufficient appropriate audit evidence to confirm revenue from service charges.

Receivables

10. Trade receivables from exchange and non-exchange transactions amounting to R324 991 338 (2011: R242 882 382) were disclosed in notes 4 and 5 to the financial statements. The accurate recording of receivables could not be confirmed, as sufficient appropriate audit evidence could not be obtained. Alternative procedures could not be performed due to the lack of available documentation.

Irregular expenditure

11. The municipality did not disclose all irregular expenditure incurred during the year as required by section 125(d) of the MFMA. The irregular expenditure disclosed in note 45 as R28 032 351 (2010: R9 930 194) was understated by an estimated R19 374 979

Qualified opinion

12. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Sol Plaatje Local Municipality as at 30 June 2012 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

13. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

14. With reference to note 51 to the financial statements, the municipality is the defendant in several lawsuits. The municipality is opposing the lawsuits. The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

15. Misstatements in the corresponding figures were identified during the prior year audit. Management corrected the misstatement by restating the corresponding figure as disclosed in note 39 to the financial statements.

Material losses

16. The municipality suffered a significant electricity distribution loss of 13,22% (2011:12,48%) with a value of R35 669 358 (R26 630 278) during the year under review.

17. Material losses to the amount of R56 387 926 (2011: R246 368 291) were reported by the Sol Plaatje local municipality as a result of a write-off of irrecoverable Trade receivables from exchange transactions.

Material impairments

18. As disclosed in note 4 to the financial statements, material provision for impairment of debts to the amount of R312 510 051 (2011: R258 924 531) was made due to the uncertainty of the recovery of trade receivables from exchange transactions.

Additional matters

19. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material inconsistencies in other information included in the annual report

20. The 2011/12 annual report has not been received at the date of this report, consequently a conclusion could not be drawn on the consistency between the financial statements and other information included in the annual report.

Unaudited supplementary schedules

21. The supplementary information set out on appendix A to G does not form part of the financial statements and is presented as additional information. I have not audited these schedule's and, accordingly, I do not express an opinion thereon

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

22. In accordance with the PAA and the General Notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

23. I performed procedures to obtain evidence about the usefulness and reliability of the information in the 2011/12 annual performance report of the Sol Plaatje Local Municipality as set out on pages XX to XX of the annual report.

24. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priorities. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information.

    The reliability of the information in respect of the selected development priorities is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

25. Material findings were as follows:

Reliability of information

Validity

26. The National Treasury Framework for managing programme performance information (FMPPI) requires that processes and systems which produce the indicator should be verifiable. A total of 63% of the actual reported performance relevant to the selected indicators differed materially when compared to the source information and/or evidence provided. This was due to the fact that sufficient, appropriate source documents were not kept for all indicators in a format that is easily understandable and clearly linked to the key performance areas and indicators as per the IDP.

Accuracy

27. The National Treasury Framework for managing programme performance information (FMPPI) requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. A total of 63% of the actual reported performance relevant to the programme, Basic service delivery and Infrastructure, were not accurate when compared to source information. This was due to the fact that sufficient, appropriate source documents were not kept for all indicators in a format that is easily understandable and clearly linked to the key performance areas and indicators as per the IDP.

Completeness

28. The National Treasury Framework for managing programme performance information (FMPPI) requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the completeness of the actual reported performance relevant to 31% of the selected indicators. This was due to a lack of and improper document management system with regard to actual performance achievements.

Additional matter

29. I draw attention to the following matter below, which does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

30. Of the total number of 59 targets planned for the year, 24 of targets were not achieved during the year under review. This represents 41% of total planned targets that were not achieved during the year under review.

Compliance with laws and regulations

31. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA are as follows:

Annual financial statements, performance and annual report

32. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of non-current assets, current assets, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently, but the uncorrected material misstatements and/ or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion..

Procurement and contract management

33. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids and that deviations approved by the accounting officer were only if it was impractical to invite competitive bids, as required by Supply Chain Management (SCM) regulation 19(a) and 36(1).
34. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2).
35. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A)
36. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
37. An updated list of accredited prospective providers was not in place for procuring goods and services through quotations, as required by SCM regulation 14(1)(a).

Human resource management and compensation

38. Sufficient appropriate audit evidence could not be obtained that the municipality appointed managers directly accountable to municipal manager who were not dismissed for financial misconduct after expiry of 10 years, in contravention of section 57A of the Municipal Finance Management Act.
39. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of Municipal Systems Act.

Expenditure management

40. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the Municipal Finance Management Act
41. The accounting officer did not take reasonable steps to prevent unauthorized expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act

Revenue management

42. A credit control and debt collection policy was not implemented as required by section 96(b) of the Municipal Systems Act and section 62(1)(f)(iii) of Municipal Finance Management Act.
43. An adequate management, accounting and information system was not in place which accounted for debtors and for receipts of revenue, as required by section 64(2)(e) of the Municipal Finance Management Act.

Asset management

44. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the Municipal Finance Management Act.
45. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the Municipal Finance Management Act.

Internal control

46. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

47. The accounting officer did not exercise adequate oversight responsibility over financial and performance reporting, compliance with laws and regulations as well as internal control. The action plans compiled to address the previous year's audit findings were not monitored and reviewed to determine if the reported progress on the plans related was supported by credible information. Critical vacancies and lack of skills have contributed to the ineffective implementation of action plans..

48. The use of exception reports recommended in the previous financial year was not developed and utilised on a monthly basis to ensure the completeness, existence and accuracy of transactions within the areas where high volumes of transactions were processed, such as revenue and receivables.

Financial and performance management

49. Adequate documentation supporting the reported performance information could not be provided for audit purposes. The evidence provided for audit purposes were not clearly linked to the specific performance information reported in the annual performance report, this is as a result of a lack of adequate communication and understanding of what supporting documentation is required for the performance information reported.

50. Daily and monthly reconciliations were not adequately performed during the financial year under review, as a result information such as the fixed assets register was not ready for audit when the financial statements were submitted audit purposes, due to the action plan not being adequately implemented by the asset management unit and the implementation was not monitored effectively by the chief financial officer.

51. Daily and monthly reconciliations within the revenue unit was also not performed due to the municipality not having the staff with the necessary skills and competencies to perform and monitor the good practice on a regular basis.

52. The financial statements were subject to material corrections resulting from the audit and prior year's audit findings were not substantially addressed in all instances, this is due to a lack of adequate review by the chief financial officer to ensure completeness and accuracy prior to submission for auditing, as well as the late implementation of the municipality's action plan to address prior year audit findings..

53. The municipality did not review and monitor compliance with applicable laws and regulations.

Governance

54. The internal audit and the audit committee were effective as they functioned in accordance with their audit charter and performed all audits in accordance with their audit plan, however recommendations were not implemented by management, contributing to material repeat findings in the audit report.

Auditor-General

Kimberley

30 November 2012

AUDITOR-GENERAL
SOUTH AFRICA

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